



Questions & Answers – August 3, 2012

Office of the State Treasurer and Receiver General

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RFR File Name/Title: IRC 457 Deferred Compensation Plan – Investment Management Services – Active Emerging Markets Equity, Active Emerging Markets Debt and Active Real Return

RFR File Number: 12-DC-InvestMang Active Emerging Markets Equity, Active Emerging Markets Debt and Active Real Return

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Please be advised that the Treasury has not responded to any questions received after the July 26, 2012, 4:00 PM Question deadline.

Additionally, the Treasury received numerous questions about where certain mandatory attachment could be found. Please be advised that these forms were erroneously not included with the RFR posting on Comm-PASS but this omission has since been rectified. The Mandatory Attachment forms, including the *Treasury Supplier Diversity Program (TSDP) Form*, the *Invest in Massachusetts Data (IMD) Form*, the *Certificate of Non-Collusion* and the *Executive Order 504 Form* have all been posted on the Comm-Pass website (www.comm-pass.com) under the “Forms & Terms” tab for this solicitation. (Note the Treasury requires Bidders to submit the *TSDP Form* and not the *Affirmative Market Program Plan Form* that was previously included with the posting.)

Also please note that the RFR document itself was amended on pages 16 and 45.

Question 1: [Our firm] is authorised and regulated by The Financial Services Authority in the United Kingdom, it is not SEC registered. Please advise whether an RFR response from [our firm] would be considered, assuming all other criteria are met

Answer: No. The candidate must be SEC-registered or exempt from registration with the nature of the exemption provided.

Question 2: As s it pertains to the Active Real Return mandate, would the Commonwealth of Massachusetts consider a 5 year lock-up vehicles that lends money to private companies in the Americas? Additionally, if the private equity vehicle was not possible, could the plan meet our \$100 million minimum requirement for a separate account that still requires drawing capital on a called basis?

Answer: No. The Commonwealth would not consider any such alternatives. Such alternative vehicles are incongruent with the current liquidity needs of the target date fund series we provide to our participants. Additionally, would not meet a firm's \$100 million minimum requirement for a separate account with respect to the mandates in this RFR.

Question 3: Is the Commonwealth of Massachusetts IRC 457 Deferred Compensation Plan & Commonwealth Sponsored Plan for Non-Profit Organizations (the Plan) a self directed plan?

Answer: Yes.

Question 4: Is the Plan's search restricted from considering hedge fund strategies?

Answer: No. The strategy must be daily valued and provide daily liquidity.

Question 5: What qualifies as a real return strategy?

Answer: A real return strategy is a strategy that possesses a base benchmark of CPI plus a premium. The strategy also must be daily valued and provide daily liquidity

Question 6: Is the search restricted to long only managers?

Answer: No.

Question 7: Is the potential size of the allocation limited by the AUM of the manager or the strategy?

Answer: No. Nonetheless, the bidder must meet all minimum requirements as stated under Minimum Qualifications, Section V. (A), including the requirement of having a minimum of \$250 million in assets under management in each mandate as of 3/31/12.

Question 8: Does the manager have to be SEC registered at the time the RFR is submitted or by the time of funding? Does FSA registration with the London authorities suffice? We are FSA registered and anticipate being fully SEC registered by September 1st.

Answer: The manager must be SEC registered at the time the RFR is submitted. FSA registration with the London authorities will not suffice in lieu of SEC registration or explanation of why the firm is exempt from registration.

Question 9: If a strategy qualifies for both the EM debt and EM real return RFR's, can we complete the phase II questionnaire for both?

Answer: No. A phase II questionnaire must be filled in for each mandate (*i.e.*, Emerging Markets Equity Questionnaire = Section VII; Emerging Markets Debt Questionnaire = Section VIII, and Real Return Questionnaire = Section IX). If a bidder wishes to submit one product as a solution to two separate mandates, then two Phase II forms must be submitted. However, it is understood that both Phase II forms would likely have identical answers. The purpose for this is to make sure that each mandate can be scored separately and distinctly.

Question 10: Does the requirement that a manager, as of March 31, 2012, rank above its peer median apply to both the 3-year and since-inception periods or just the 3-year period?

Answer: The candidate's product must have been in existence for at least three years and must be ranked in the top half of their peer rankings since inception as of 3/31/2012, net of all fees. (In addition to certifying to this requirement in the "Representations and Warranties," please also demonstrate that your firm meets this criterion by submitting documentation that supports the basis for your firm's ranking, *i.e.* Bloomberg, Morningstar, eVestment Alliance etc.)

Please be advised that this clarification to this minimum qualification has been included in the Amended RFR, posted August 3, 2012.

Question 11: Specifically, can you tell me what the mandate size is for the Emerging Market Debt search and if there is a vehicle preference (separate account versus commingled versus mutual fund).

Answer: We would estimate the total size for all three mandates combined (emerging market debt, emerging market equity and real return strategy) will be between 3-10% of the target-date fund allocation. This estimate may change at the Plan's discretion largely dependent on the outcomes of our ongoing review and management of the target date fund's glidepath. As of 3/31/2012, the total AUM in the target date funds was \$609 million. Additionally, the allocation for each specific mandate will be at the Treasury's discretion.

With respect to the various investment vehicles that may exist as options for each of the three mandates sought through this RFR, the Treasury reserves the right to select the investment vehicle(s) that is in the best interest of the participants (*i.e.* mutual fund institutional class shares, institutional commingled fund, etc.). If the strategy is the same across vehicles, please submit one full cost proposal that encompasses all available vehicles.

Question 12: Is there a quiet period ahead of the RFP due date?

Answer: Bidders are advised in Section IV.A.3 of the RFR, Bidders are prohibited from communicating directly with any employees of the Treasury or any member of the PMT regarding this RFR, except as specified in this RFR, and no other individual Commonwealth employee or representative is authorized to provide any information or respond to any question or inquiry concerning this RFR. Bidders may contact the contact person for this RFR in the event this RFR is incomplete or the Bidder is having trouble obtaining any required attachments electronically through Comm-PASS. In addition, Bidders that intend to submit a bid/proposal should not discuss this RFR with members of the Deferred Compensation Plan Committee, employees of the Pension Reserves Investment Management Board ("PRIM"), or any employee of the Commonwealth's current third-party administrator (Great-West Retirement Services), investment managers, consultants (Hewitt EnnisKnupp), legal counsel or other advisors.

Question 13: We would like to clarify the performance requirement that is included as point (5) on page 16 of the RFP, under the section titled "Minimum Requirements". Do contenders need to rank in the top half of peers for a three year period ending 03/31/12, and then in addition, be ranked in the top half of the their peer rankings since inception periods to 03/31/2012?

Answer: No. Please refer to the Treasury's response to Question 11, above.

Question 14: With regards to the 'Active Emerging Markets Debt' component, 'Section B: Subject Product and Assets Under Management' question 2, the investment vehicle that we are proposing is a U.S. 1940 Act Mutual Fund. The Fund was launched in later 2010 and as such has a limited track record; would it be permissible to provide assets under management for our strategy composite?

Answer: No. The candidate's product must have been in existence for at least three years and must be ranked in the top half of their peer rankings since inception as of 3/31/2012, net of all fees.

Question 15: With regards to the 'Active Emerging Markets Debt' component, 'Section B: Subject Product and Assets Under Management' question 4 and 5, the investment vehicle that we are proposing is a U.S. 1940 Act Mutual Fund. The Fund was launched in later 2010 and as such has a limited track record; would it be permissible to provide client and assets gained/lost for our strategy composite?

Answer: No. The RFR requires a minimum track record of three years for each strategy.

Question 16: Our Diversified Real Return strategy, which would be proposed for the Active Real Return strategy, was launched in March of 2011 and currently has

approximately \$50 million in assets under management. This is a fund of fund structure, however, and many of the underlying funds have longer return histories as well as larger assets under management. Would the Commonwealth of Massachusetts entertain a proposal for this strategy given its limited standalone track record and assets?

Answer: No. This RFR requires a minimum track record of three years for the specific product proposed and assets under management of \$250 million for each strategy.

Question 17: Are investment guidelines available for the Active Emerging Markets Debt and Active Real Return mandates?

Answer: No. The Plan does not have investment guidelines that govern these mandates. All mandates must be daily valued. The investment objectives for each above-referenced mandate are as follows:

- ACTIVE REAL RETURN STRATEGY: Investment objective is a real (inflation adjusted) return of 500 basis points above the Consumer Price Index. (CPI + 5%). (Must be daily valued)
- ACTIVE EMERGING MARKETS DEBT: Investment objective is long-term total return benchmarked against the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI Emerging Market Global Diversified or equivalent preferred index. (Must be daily valued.)

Question 18: For the Active Emerging Markets Debt and Active Real Return mandates, what will the initial funding amounts be; and does the Commonwealth of Massachusetts have a preference for an investment vehicle (separate account, commingled, etc.)?

Answer: Please refer to the Treasury's response to Question 11.

Question 19: For the Active Emerging Markets Debt mandate, have investment constraints been established for non-index securities, such as emerging markets corporate credit?

Answer: No. However, all mandates must be daily valued and provide daily liquidity. Please also note that the investment objective for each above-referenced mandate is as follows:

- ACTIVE EMERGING MARKETS DEBT: Investment objective is long-term total return benchmarked against the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI Emerging Market Global Diversified or equivalent preferred index. (Must be daily valued.)

Question 20: For the Active Real Return portfolio, have investment constraints been established for countries, currencies, and non-index securities? We are trying to gauge if this portfolio should have an emphasis on inflation-linked securities, commodities, or if other sectors can be used to attain the return objective of CPI + 5%.

Answer: No. At the present time, no investment guidelines that govern this mandate. The procurement management team (“PMT”) is interested in learning about strategies that attempt to earn an investment return over and above inflation regardless of investment vehicle type or opportunities to relax the long only constraint. (e.g., CPI plus a premium) The strategy also must be daily valued and provide daily liquidity.

Question 21: For the minimum requirements, it is stated that “The candidate must be ranked in the top half of their peer rankings over a three years – since inception period as of 03/31/2012, net of all fees.” Does this mean that investment managers need to assess their since inception peer rankings as of 3/31/2012, 3/31/2011, and 3/31/2010? Or is a 3-year annualized peer universe performance ranking required, as of 3/31/2012?

Answer: No. Please refer to the Treasury’s response to Question 10.

Question 22: Although the current portfolio management team has 10+ years of experience in managing Emerging Markets debt in the Strategy, they became the portfolio managers of our proposed EM debt product in December, 2009. Would their experience in on the Worldwide Opportunities strategy suffice in meeting requirement number 2 (page 15) relating to experience minimum?

Answer: No.

Question 23: Could you give us an indication of the size of this mandate?

Answer: Please refer to the Treasury’s response to Question 11.

Question 24: Do you have a vehicle preference? Are the two plans able to invest via a Cayman pooled vehicle, such as a section 3c7 fund?

Answer: With respect to vehicle preference, please refer to the Treasury’s response to Question 12. Also, the Treasury, with respect to each of the plans, would prefer not to invest via a Cayman pooled vehicle.

Question 25: What are the proposed asset sizes for the mandates?

Answer: Please refer to the Treasury’s response to Question 11.

Question 26: We are interested in completing the RFR posted below with our EMD strategy...Is there an initial amount with which the account will be funded?

Answer: Please refer to the Treasury's response to Question 11.

Question 27: Our firm has the capability to offer either an institutional separate account or the institutional class of the mutual fund vehicle type, and each has its own cost schedule. We would appreciate your guidance on how to best present this information in the RFP response. Does the Commonwealth prefer that we submit: (i) two full RFR responses, one for each vehicle, along with two cost proposals; or (ii) one response (because the strategy is the same across vehicles) but separate cost proposals; or (iii) one response and one cost proposal that encompasses both the institutional separate account and mutual fund fee schedule?

Answer: If the strategy for each individual mandate/strategy is the same across vehicles, please submit one full response (per strategy, *i.e.*, real return, emerging markets equity and/or emerging markets debt) and one cost proposal that encompasses both fee schedules for any vehicle.

Question 28: [Question concerning candidacy]: We wish to be considered as a candidate as an Emerging Markets Debt Manager. Our firm offers both a Local Currency Emerging Debt Product and a Hard Currency Emerging Debt product and we are willing to manage on a 50/50 split basis. Our question relates to Point 5 under the Minimum Qualifications:

5. The candidate must be ranked in the top half of their peer rankings over a three years – since inception period as of 03/31/2012, net of all fees. (In addition to certifying to this requirement in the “Representations and Warranties,” please also demonstrate that your firm meets this criterion by submitting documentation that supports the basis for your firm’s ranking, *i.e.* Bloomberg, Morningstar, eVestment Alliance etc.)

As we do not have an Emerging Debt track record with a 50/50 split, we are looking at the track record of our 2 separate products mentioned above. Our peer group analysis, calculated using Morningstar data, is as follows:

For our Local Currency Debt Product:

3 yrs as @ March 31, 2012: we rank 9 out of 21

SI: we rank 2 out of 7

For our Hard Currency Debt Product:

3 Yrs as @ March 31, 2012: we rank 21 out of 25

SI: we rank 1 out of 10

Thus, the only period that we are not in the top half is for the Hard Currency Product, 3 years to March. Our Question: Do we still qualify as a candidate?

Answer: No. The Treasury is seeking a single product with respect to each mandate/strategy and the above-referenced scenario would not meet the 3-year track record requirement.

Question 29: With regard to minimum requirements, please be more specific as to what is meant by “.....over a three years - since inception period”. (page 16, Section V. A. 5.). What specific periods will be measured with regard to performance being in the top half of peer rankings?

Answer: Please refer to the Treasury’s response to Question 10.

Question 30: [Question with regard to minimum qualifications] – We have an Active Real Return Strategy that has an investment objective of 3-5% above CPI with an 11 year track record that is very strong (i.e., it has typically generated performance in excess of CPI + 5% but the investment objective states CPI+ 3-5%). Will this be considered?

Answer: No. The Commonwealth is seeking Real Return strategies with a CPI + 5% target. This strategy must be daily valued and provide daily liquidity.

Question 31: What is the size of each opportunity (active emerging markets equity, emerging markets debt and active real return)?

Answer: Please refer to the Treasury’s response to Question 11.

Question 32: For the emerging markets equity opportunity, will you consider a mutual fund that has an Emerging Markets focus/emphasis that invests not only in companies in the developing world but also permits and includes investments in multinational companies with significant ties to the developing world?

Answer: If the mandate meets the following criteria:

- **ACTIVE EMERGING MARKETS EQUITY:** Investment objective is long-term total return benchmarked against the MSCI Emerging Market Index or equivalent preferred index

Question 33: Our active real return strategy performance history is not peer ranked. Can we submit an active real return strategy that is not peer ranked?

Answer: No.

Question 34: Will a semi-monthly valued commingled fund qualify for your requirements, or does the plan require daily valuations and/or daily cash movement?

Answer: No. The Plan is daily valued.

Question 35: Is the plan sponsor-driven or participant directed?

Answer: The Commonwealth's 457 Deferred Compensation Plan is Participant-directed. However, the Target-Date funds in the glidepath are Plan-Sponsor driven.

Question 36: The minimum requirements state *"The candidate must be ranked in the top half of their peer rankings over a three years – since inception period as of 03/31/2012, net of all fees."* Can we submit a strategy that is not ranked in the top half of its peers for the 3 year annualized return at 3/31/12, but is in the top half of its peers over longer periods such as 15 or 20 years at 3/31/2012?

Answer: Yes. Please refer to the Treasury's response to Question 10.

Question 37: With respect to obtaining a certificate of good standing from the Massachusetts Department of Revenue, is this relevant for bidders that have no presence or other business in Massachusetts (i.e, will the Dept. of Revenue issue a good standing certificate to a party that has no standing in Massachusetts)?

Answer: Yes.

Question 38: What proof of compliance with federal tax laws is required as referenced in paragraph 13 on page 18 of the RFP?

Answer: The proof of compliance comes from the MA DOR per the instructions on page 18, paragraph 13.

Question 39: Are there any investment policy statements or other statutory investment restrictions that bidders should be aware of that are relevant to the mandates described in the RFP (e.g., Section 23 of Chapter 32 of the Massachusetts General Laws)?

Answer: No. However, each mandate must be daily valued and comply with the stated criteria under scope of services:

- **ACTIVE EMERGING MARKETS EQUITY:** Investment objective is long-term total return benchmarked against the MSCI Emerging Market Index or equivalent preferred index.

- ACTIVE EMERGING MARKETS DEBT: Investment objective is long-term total return benchmarked against the 50% JPMorgan EMBI Global Diversified/50% JPMorgan GBI Emerging Market Global Diversified or equivalent preferred index.
- ACTIVE REAL RETURN STRATEGY: Investment objective is a real (inflation adjusted) return of 500 basis points above the Consumer Price Index. (CPI + 5%)

Question 40: What would be the liquidity needs of the Active Emerging Markets Equity account? Our commingled trust vehicle offers weekly (each Wednesday) and month-end liquidity – would this meet the needs of the Commonwealth of Massachusetts IRC 457 Deferred Compensation Plan, given the planned utilization within the Plan’s Target Date funds?

Answer: The Plan is daily valued and any strategy/mandate must provide daily liquidity. Therefore, a commingled trust vehicle that offers weekly and month-end liquidity would not be sufficient.

Question 41: We currently manage assets for the Commonwealth of Massachusetts IRC 457 Deferred Compensation Plan, and thus, have an existing contract in place. Should we be fortunate enough to be awarded an additional mandate, would the Plan look to amend our current contract for a new account or initiate a new contract?

Answer: This RFR is for new services and is therefore separate and independent from any pre-existing agreements the Treasury, on behalf of the Plan, may have with any vendor. As such, the Treasury expects that the Treasury will initiate a new contract following the conclusion of this RFR process and in the even a contract for the services sought herein are awarded. Nonetheless, please be advised that the Treasury reserves the right to enter into whatever contract mechanism provides the greatest benefits and value to the Plan with the apparent successful bidder.

Question 42: Per the language in Section B (Components of Procurement), Part 5 (Contract Performance and Additional Business Specifications), Item j (Pricing: Price Limitation) of the RFR [page 14]: would the following underlined modification to this language pose a problem for the Plan?

“The Bidder must agree that, at any time subsequent to the commencement date of the Agreement, no other state or public entity customer within the United States of similar size and with similar terms and conditions shall receive a lower price for the same commodity and service during the contract period, unless this same lower price is immediately effective for the Commonwealth. If the Commonwealth believes that it is not receiving this lower price as required by this language, the Bidder must agree to provide current or historical pricing offered or negotiated with other state or public entities at any time during

the contract period in the absence of proprietary information being part of such contracts.”

Answer: The Treasury does not at this time agree to any conditions or exceptions to the Mandatory Attachment or any specification contained in the RFR itself. The Treasury expects that it will negotiate an appropriate contract(s) with any bidder(s) awarded the contract.

Question 43: Can the Commonwealth confirm the name of the glide path provider so respondents can answer conflict of interest questions accurately? And the recordkeeper?

Answer: At the present time, the glide path provider for the Plan’s target date funds is Alliance Bernstein. The Plan’s recordkeeper is currently Great-West Retirement Services.

Question 44: Can the Commonwealth confirm there will be no “revenue sharing” with the glide path provider?

Answer: The Plan does not have any revenue sharing arrangements with the glide path provider.

Question 45: Regarding Minimum Requirement #5 (Peer Ranking): would you please clarify the time periods for which we should provide our peer ranking (3 years ending 3/31/12, or since inception through 3/31/12?).

Answer: Please refer to the Treasury’s response to Question 10.

Question 46: In regards to the Active Emerging Market Debt and Emerging Market Equity RFR...Considering the proposed benchmark is 50% Diversified/50% GBI Emerging Market Global Diversified, is it permissible to propose two underlying strategies that are managed respectively to each benchmark as a 50/50 blend (one local currency and one hard currency)?

Answer: No. The Commonwealth is seeking a single emerging market debt product.

Question 47: In regards to the Active Emerging Market Debt and Emerging Market Equity RFR...Would your performance qualifications be met if the proposed strategy currently ranks in the top half of peer rankings over a three years, net of all fees according to Morningstar Lux data provided we have an identical Luxembourg fund track record to our recently launched US fund?

Answer: Please also refer to the Treasury’s response to Question 10.

Question 48: In regards to the Active Emerging Market Debt and Emerging Market Equity RFR...What are your expectations regarding account flows for both Emerging Market Debt and Emerging Market Equity – do you expect to have frequent inflows and outflows?

Answer: The strategies will be used as components in custom target retirement date funds. The size of future account flows is difficult to estimate; however, the Commonwealth expects the cash flows to be positive.

Question 49: In regards to the Active Emerging Market Debt and Emerging Market Equity RFR...What is the estimated AUM to be invested in Emerging Market Debt and Emerging Market Equity to best provide an accurate fee schedule?

Answer: Please refer to the Treasury's response to Question 11.

Question 50: In regards to the Active Emerging Market Debt and Emerging Market Equity RFR...Because we respect the confidentiality of our clients, is it acceptable to provide references but withhold the actual client identity until the RFR process has progressed and it is deemed necessary?

Answer: No.

Question 51: We have two different categories of real asset strategies. The first category has a higher sensitivity to inflation. Within this category we offer two approaches; one with a CPI + 5% objective and one with a CPI + 3% objective. The CPI + 3% approach is simply a lower volatility variant which was developed primarily for the DC core menu. The other category is lower volatility, more absolute return oriented and has a CPI + 3-5% target. Given the investment objective stated in the RFR of CPI + 5%, would Mass Deferred be interested in receiving proposals on the CPI + 3% with lower volatility strategy and/or the CPI + 3-5% strategy in addition to the CPI + 5% strategy?

Answer: The Commonwealth is seeking Real Return strategies with a CPI + 5% target. This strategy must be daily valued and provide daily liquidity.

Question 52: What is the anticipated asset size for this mandate?

Answer: Please refer to the Treasury's response to Question 11.

Question 53: Where can more information regarding the recently announced Emerging Markets Equity search being conducted by the Mass IRC 457 Deferred

Compensation Plan be found? Any information on minimum qualifications or the RFP itself at your earliest convenience would be greatly appreciated.

Answer: Copies of this RFR may be obtained electronically at the Treasury website at <http://www.mass.gov/treasury/about/procurements/> or on Comm-PASS at <http://www.comm-pass.com/>.

Question 54: Is a Word version of this RFR available? If so, how can we obtain a copy.

Answer: Copies of this RFR may be obtained electronically at the Treasury website at <http://www.mass.gov/treasury/about/procurements/> or on Comm-PASS at http://www.comm-pass.com. The exact URL on Comm-Pass for this solicitation is <https://www.ebidsourcing.com/processPublicSolSummView.do?doValidateToken=false&docStatus=OPEN&soltypeCd=UNIVERSAL&docUserId=242628&docViewType=OPEN&action=soltypeCd&docId=132686>.

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